



HATTON NATIONAL BANK PLC [HNB.N0000]

MAINTAIN BUY

“STRENGTH HOLDING, UPSIDE OPEN”

Fair Value: 2026E - LKR 450.0 [+9%] 2027E - LKR 510.0 [+23%]

Total Return with DPS: 2026E - 14% [AER 21%] 2027E - 29% [AER 16%]

HNB reported a 31.3%YoY decline in quarterly earnings, bringing full-year earnings to LKR 47.6Bn, slightly ahead of FCR's expectations. The YoY decline was largely driven by a high base effect, as 4Q2024 earnings were elevated by a one-off impairment reversal of LKR 82.1Bn (a net impact of LKR 28.6Bn) linked to SLISBs. On the core business front, net interest income (NII) grew only modestly, by 1.7%YoY to LKR 31.8Bn, despite a robust 36.4%YoY expansion in the net loan book. This was primarily due to interest expenses rising faster than interest income. As a result, margin pressure persisted, with net interest margins (NIMs) declining to 4.26% in 4Q2025 from 4.86% in 4Q2024, although improving from 4.17% in 3Q2025. Non-interest income stood out as the key earnings driver during the quarter. Net fee and commission income surged 40.0%YoY, supported by higher card transaction volumes and increased adoption of digital banking channels. Meanwhile, net insurance premium income grew by 47.1%YoY to LKR 7.0Bn, underscoring the strength of HNB's diversified income base. Asset quality remained resilient, with the bank recording a net impairment reversal of LKR 1.5Bn, compared to the sizeable reversal in 4Q2024 linked to SLISBs. However, we expect this trend to stabilize going forward, with impairment charges normalizing and edging slightly higher in response to a slowing economic environment. Following the strong performance in 2025, we have raised our earnings forecasts by 7.0% for 2026E and 12.3% for 2027E, driven by higher loan growth (albeit at a moderating pace) and a more moderate impairment outlook. While impairment charges are still expected to rise, we now anticipate a less severe increase than previously forecast, reflecting the bank's continued improvements in asset quality management. Reflecting the uplift in earnings, our 2026E fair value estimates have been revised to LKR 450.0 for HNB.N and LKR 360.0 for HNB.X, with newly introduced 2027E fair values of LKR 510.0 and LKR 410.0, respectively. HNB's fundamentals remain strong, supported by disciplined asset quality management and a diversified income stream. With long-term prospects intact, we **MAINTAIN BUY**.

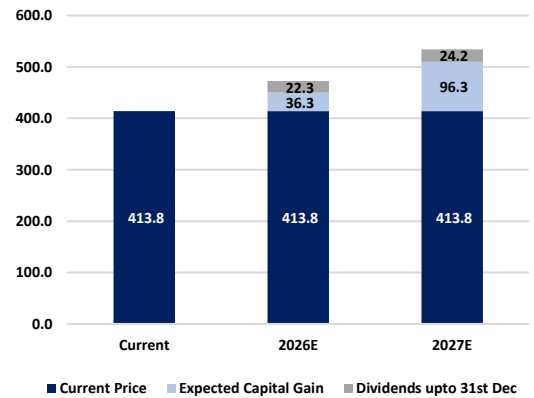
LKR (Mn)	4Q2024	4Q2025	YoY	2024	2025	YoY
Earnings (LKR 'Mn)						
NII	31,238	31,759	+2%	109,765	115,109	+5%
Total Operating Income	-8,407	48,736	+480%	97,124	174,875	+80%
Net Operating Income	73,740	50,193	-32%	174,998	183,271	+5%
Pre Tax Profit	45,387	24,362	-46%	84,099	79,486	-5%
Net Profit : Equity Holders	20,539	14,115	-31%	43,539	47,593	+9%
Balance Sheet (LKR 'Mn)						
Net Loans	1,104,013	1,505,588	+36%	1,104,013	1,505,588	+36%
Shareholder's Equity	261,361	302,785	+16%	261,361	302,785	+16%
Adjusted NAVPS	466.9	529.5	+13%	466.9	529.5	+13%

HNB earnings down by 31.3%YoY during 4Q2025

HNB reported a 31.3%YoY decline in quarterly earnings, with full-year earnings reaching LKR 47.6Bn, marginally exceeding FCR's expectations. The decline was largely attributable to a high base effect, as 4Q2024 earnings were boosted by a one-off impairment reversal of LKR 82.1Bn (a net impact of LKR 28.6Bn) linked to SLISBs. Core operations remained relatively steady, with NII rising modestly by 1.7%YoY to LKR 31.8Bn, despite a strong 36.4%YoY expansion in the net loan book. This was driven by interest expenses increasing at a faster pace than interest income. Consequently, margin pressure persisted, with NIMs declining to 4.26% in 4Q2025 from 4.86% in 4Q2024, although improving from 4.17% in 3Q2025. Non-interest income emerged as the key earnings driver during the quarter. Net fee and commission income grew sharply by 40.0%YoY, supported by higher card transaction volumes and increased adoption of digital banking channels. In addition, net insurance premium income rose by 47.1%YoY to LKR 7.0Bn, highlighting the strength of HNB's diversified income base. Asset quality remained resilient, with the bank recording a net impairment reversal of LKR 1.5Bn, compared to the sizeable reversal in 4Q2024 linked to SLISBs. This was supported by a recovery in the Stage 3 loan portfolio, with the net Stage 3 ratio improving to 1.09%, from 1.88% in 4Q2024 and 1.36% in 3Q2025. Profitability was partially offset by rising cost pressures, as operating expenses increased by 17.1%YoY. However, tax-related costs declined significantly, with VAT on financial services and corporate income tax decreasing by 61.5%YoY and 61.7%YoY, respectively.

Loan book expands as private credit gains momentum

Amid a supportive low-interest rate environment, with the Average Weighted Prime Lending Rate (AWPR) easing to 8.94% from 9.06% in 4Q2024 (albeit higher than 8.05% at end-3Q2025), private sector credit growth accelerated to 25.2%YoY as of Dec-2025, up from 22.1%YoY in Sep-2025. Against this backdrop, HNB's gross loan book expanded robustly by 32.0%YoY to LKR 1.6Tn as at 4Q2025, outperforming overall system credit growth. Segment-wise, domestic currency lending grew by 30.0%YoY, driven primarily by higher term loan volumes, while foreign currency lending recorded a stronger 44.1%YoY increase, supported by increased term loan disbursements and LKR depreciation against the USD during the quarter. On the funding side, total deposits rose by 15.3%YoY to LKR 2.0Tn in 4Q2025. With loan growth outpacing deposit mobilisation, the loan-to-deposit ratio increased to 78.9% in 4Q2025, from 76.9% in 3Q2025 and 68.9% in 4Q2024. Meanwhile, the CASA ratio improved to 34.3%, compared to 33.5% in both 3Q2025 and 4Q2024.

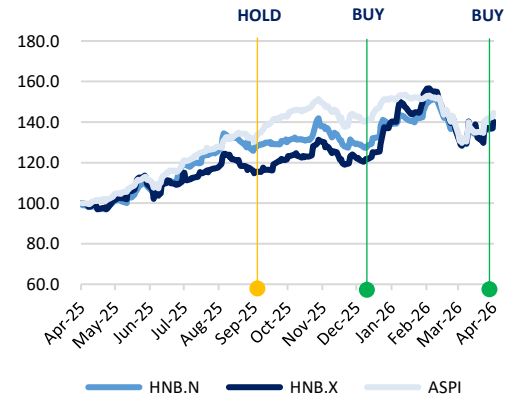


FIRST CAPITAL RESEARCH

Shahana Kanagaratnam +94 11 263 9866

shahana@firstcapital.lk

Price performance of HNB vs ASPI (Indexed and rebased to 100)



Source: CSE

Minimum Return for BUY:

Buy Below 2027E [AER of 15.0% with DPS]: LKR 421.7
HNB.N categorized as 'Grade A' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of HNB during the five trading days prior to the issuance of this document.



Capital adequacy soars past regulatory hurdles

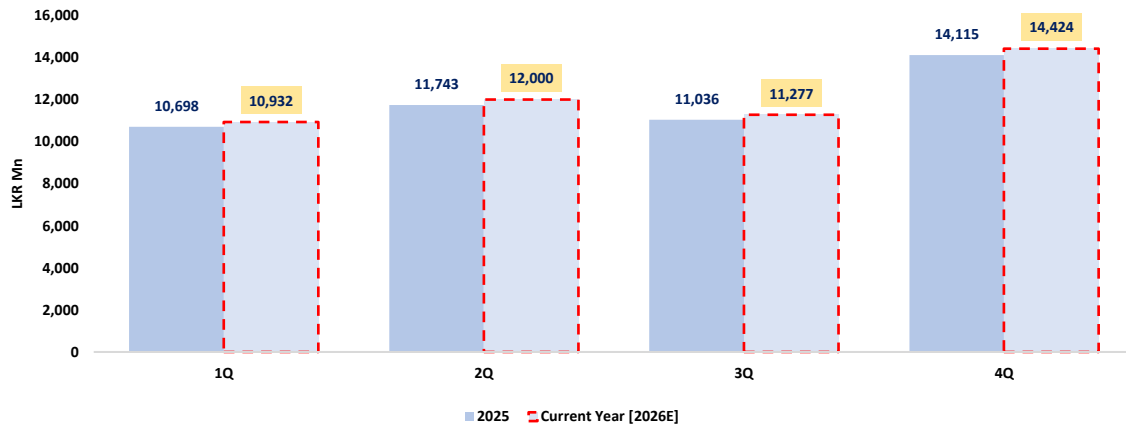
HNB's Tier I and Total Capital Adequacy Ratios stood at 16.85% and 19.95% against the minimum statutory requirements of 9.5% and 13.5% respectively. HNB continued to maintain a strong liquidity position with an all-currency Liquidity Coverage Ratio of 227.75%, against the minimum statutory requirements 100%.

FV for 2027E at LKR 510.0

After a strong 2025 performance, we have raised our earnings forecasts by 7.0% for 2026E and 12.3% for 2027E. The revision reflects stronger loan growth assumptions, albeit at a more moderate pace, and slightly lower impairment expectations, in line with continued improvements in asset quality. In line with the earnings upgrade, we revise our 2026E fair value estimates to LKR 450.0 for HNB.N and LKR 360.0 for HNB.X, and introduce 2027E fair values of LKR 510.0 and LKR 410.0, respectively. Fundamentals remain robust, underpinned by disciplined asset quality management and a well-diversified income base. With long-term prospects intact, we **MAINTAIN BUY**.



Quarterly Earnings



Estimate Revision

In LKR Mn	2026E-O	2026E-R	% Change	2027E-O	2027E-R	% Change
Earnings Estimate						
Net Interest Income	126,228	133,422	+6%	142,064	153,024	+8%
Total Operating Income	181,552	199,252	+10%	197,839	219,021	+11%
Net Operating Income	173,284	193,484	+12%	184,570	209,416	+13%
Pre Tax Profit	77,805	84,860	+9%	81,979	93,867	+15%
Net Profit : Equity Holders	45,470	48,633	+7%	47,909	53,794	+12%
Adjusted EPS	79.5	85.0	+7%	83.8	94.1	+12%
Net Profit Growth YoY	5%	2%		5%	11%	
Balance Sheet Estimate						
Loans & Advances	1,696,252	1,738,721	+3%	1,881,438	1,930,591	+3%
Shareholders' Equity	290,132	318,013	+10%	304,126	334,734	+10%
Adjusted NAVPS	518.3	568.1	+10%	543.3	598.0	+10%
Ratio Estimate						
ROE (%)	16.0%	15.7%		16.1%	16.5%	
PER (x)	4.9	4.9		4.6	4.4	
PBV (x)	0.8	0.7		0.7	0.7	



Valuation Table

P/E 31st December	2022	2023	2024	2025	2026E	2027E	2028E
Estimates (LKR 'Mn)							
Net Interest Income	111,567	118,075	109,765	115,109	133,422	153,024	171,164
Total Operating Income	160,875	149,500	97,124	174,875	199,252	219,021	234,547
Net Profit: Equity Holders	15,329	22,771	43,539	47,593	48,633	53,794	58,634
Recurring Net Profit: Equity Holders	15,329	22,771	14,974	47,593	48,633	53,794	58,634
Adjusted EPS (LKR)	26.8	39.8	26.2	83.2	85.0	94.1	102.5
YoY Growth (%)	-19.4%	48.6%	-34.2%	217.8%	2.2%	10.6%	9.0%
Valuations							
PER (x)	15.4x	10.4x	15.8x	5.0x	4.9x	4.4x	4.0x
PBV (x)	1.3x	1.1x	0.9x	0.8x	0.7x	0.7x	0.7x
Dividend Yield (%)	1.2%	1.9%	3.6%	4.8%	5.4%	6.0%	6.5%
Adjusted NAVPS (LKR)	320.5	371.2	457.1	529.5	568.1	598.0	630.2
DPS (LKR)	4.8	8.0	15.0	20.0	22.3	24.7	26.9
Dividend Payout (%)	17.8%	20.1%	19.7%	24.0%	26.3%	26.3%	26.3%

Note: Recurring net profit for 2024 indicates reported net profit adjusted for impairment reversal on ISB holdings and net losses from derecognition of financial assets.

Ratio Analysis

		2022	2023	2024	2025	2026E	2027E	2028E
Growth	Asset	23.7%	13.8%	7.9%	19.4%	10.3%	10.7%	11.2%
	Deposit	30.4%	11.5%	8.8%	15.3%	11.0%	11.0%	11.5%
	Net Loans	11.3%	-2.6%	11.7%	36.4%	15.5%	11.0%	10.5%
Profitability	Return on Equity	8.5%	11.5%	18.4%	16.9%	15.7%	16.5%	17.1%
	Return on Average Assets	0.9%	1.2%	2.0%	2.0%	1.8%	1.8%	1.7%
	Net Interest Spread	7.4%	6.4%	5.0%	4.5%	4.5%	4.7%	4.7%
	Net Interest Margin	7.8%	6.9%	5.7%	5.1%	5.2%	5.4%	5.4%
Funding & Liquidity	Loan/ Deposits	70.3%	61.4%	63.1%	74.6%	77.6%	77.7%	77.0%
	Loan/ Assets	56.4%	48.3%	50.0%	57.1%	59.7%	59.9%	59.6%
	Deposit/ Liabilities	89.7%	88.1%	90.2%	86.9%	87.0%	86.7%	86.4%
	CASA	30.4%	29.4%	33.5%	34.3%	43.0%	43.0%	41.5%



Valuation Summary

Expected HNB.N Price	2026E	2027E
Justified PBV Based Target Price	426.1	485.7
Residual Income Valuation	467.3	512.2
PER Valuation Based Target Price	467.8	517.4
Average Target Price	453.7	505.1
Target Price After Rounding Off	450.0	510.0

Return	2026E	2027E
Target Price	450.0	510.0
Current Price	413.8	413.8
Capital Gain (LKR)	36.3	96.3
Dividends upto 31st Dec (LKR)	22.3	24.7
Capital Gain %	9%	23%
Dividend Yield %	5%	6%
Total Return %	14%	29%
Annualized Return %	21%	16%

Justified PBV Valuation

Justified PBV Based Valuation	2026E	2027E
ROAE	15.7%	16.5%
Growth	3.0%	3.0%
COE	19.6%	19.6%
PBV	0.8	0.8
NAVPS	568.1	598.0
Value per Share	426.1	485.7

PER Valuation

PER Based Valuation	2026E	2027E
Earnings (LKR 'Mn)	48,633	53,794
No. of Shares ('Mn)	572	572
EPS	85.0	94.1
Expected PER	5.5x	5.5x
Value per Share	467.8	517.4

Residual Income Valuation

Residual Income Based Valuation	2026E	2027E
PV of Residual Income	-35,595	-32,008
No. of Shares ('Mn)	572	572
RI per Share	-62.2	-56.0
Opening Book Value per Share	529.5	568.1
Value per Share	467.3	512.2

COE	2026E	2027E
Rf	10.0%	10.0%
Rm	18.0%	18.0%
Growth %	3.0%	3.0%
β	1.2	1.2
$Ke=Rf+\beta(Rm-Rf)$	19.6%	19.6%

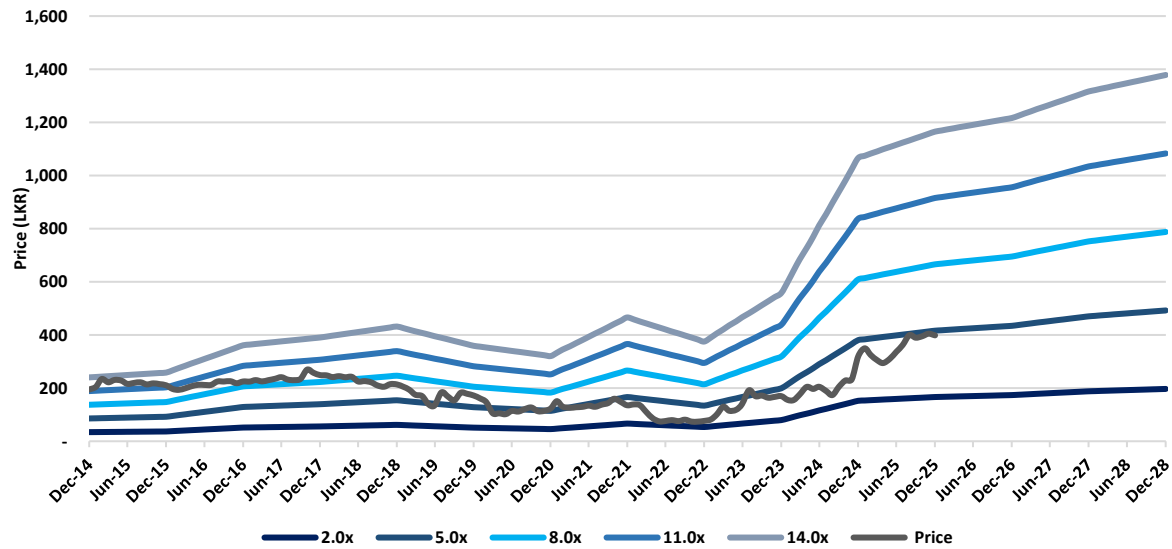
Recommendation Criteria

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	15.00%	11.00%	11.00%
Grade B	Rest of the Companies	18.00%	13.00%	13.00%
Grade C	Companies less than LKR 1Bn Market Cap	21.00%	16.00%	16.00%



PER Chart



Appendix I: Statement of Income and Expenses

Income Statement	2021	2022	2023	2024	2025	2026E	2027E	2028E
P/E 31 December								
Interest income	107,408	220,581	304,578	240,244	239,723	287,320	319,889	360,673
Interest expenses	50,945	109,015	186,504	130,479	124,615	153,898	166,866	189,509
Net interest income	56,462	111,567	118,075	109,765	115,109	133,422	153,024	171,164
Net fee and commission income	10,316	15,902	16,573	19,149	24,995	30,587	33,340	33,507
Net loss from trading	-384	4,826	-11,851	-3,966	1,228	1,760	1,689	1,617
Other operating income	17,813	28,558	26,393	-28,331	33,001	33,021	30,576	27,926
Total Operating income	84,404	160,875	149,500	97,124	174,875	199,252	219,021	234,547
Less: Impairment charge/(reversal) for loans	-19,534	-91,736	-42,524	77,874	8,395	-5,768	-9,605	-9,860
Net operating income	64,870	69,139	106,976	174,998	183,271	193,484	209,416	224,687
Personnel expenses	13,676	18,491	20,934	26,329	29,838	31,788	35,269	36,645
Other expenses	14,718	19,598	24,222	27,486	33,643	34,316	35,002	38,152
Total operating expenses	37,349	49,804	60,375	71,129	85,815	88,996	93,736	98,848
Operating profit before value added tax (VAT)	27,521	19,336	46,601	103,869	97,456	104,488	115,680	125,838
Value Added Tax (VAT) on Financial Services	4,760	5,248	10,523	21,148	18,768	20,441	22,642	24,372
Operating profit after value added tax (VAT)	22,761	14,088	36,077	82,722	78,688	84,046	93,037	101,466
Share of profit of joint venture (net of income tax)	293	332	1,141	1,378	798	814	830	847
Profit before income tax	23,054	14,420	37,218	84,099	79,486	84,860	93,867	102,312
Income Tax Expense	2,969	-1,328	13,612	39,260	29,673	33,959	37,563	40,943
Profit for the Year	20,084	15,748	23,606	44,840	49,813	50,901	56,304	61,370
Profit attributable to Non-controlling interests	1,059	420	836	1,301	2,220	2,269	2,510	2,735
Profit attributable to equity holders of the Bank	19,025	15,329	22,771	43,539	47,593	48,633	53,794	58,634
Recurring profit attributable to equity holders of the Bank	19,025	15,329	22,771	14,974	47,593	48,633	53,794	58,634
Adjusted EPS	33.3	26.8	39.8	26.2	83.2	85.0	94.1	102.5



Appendix II: Statement of Financial Position

Balance Sheet (LKR Mn)	2021	2022	2023	2024	2025	2026E	2027E	2028E
As at 31st December								
Assets								
Cash and Cash Equivalents	41,712	80,630	73,759	64,065	56,743	58,321	63,822	47,372
Balances with Central Bank of Sri Lanka	25,820	32,344	12,234	6,913	37,289	41,710	45,981	51,160
Placements with Banks	6,371	58,172	61,836	48,656	42,282	67,190	49,721	69,299
Reverse Repurchase Agreements	6,246	1,381	1,830	5,281	25,047	39,446	43,799	48,418
Financial Assets Measured at FVTPL	863	236	801	2,963	72,322	80,277	89,108	99,355
Financial Assets Measured at Amortised Cost - Loans & Advances	911,253	1,014,519	988,601	1,104,013	1,505,588	1,738,721	1,930,591	2,134,201
Financial investments - FVOCI	210,804	6,062	195,975	112,407	115,172	111,984	174,023	194,036
Financial Assets Measured at Amortised Cost - Debt & Other Instruments	171,931	479,787	584,131	770,021	684,366	671,905	720,954	831,583
Property, Plant and Equipment	49,724	49,616	50,165	55,468	57,340	56,322	55,353	54,431
Other Assets	15,047	30,573	33,415	24,538	25,023	27,776	30,831	34,377
Total assets	1,453,651	1,798,275	2,047,040	2,209,174	2,638,237	2,910,487	3,222,008	3,583,071
Liabilities								
Due to Banks	17,076	6,105	9,020	6,596	11,343	12,109	13,192	14,346
Due to Other Customers	1,107,066	1,443,179	1,609,154	1,750,259	2,017,732	2,239,683	2,486,048	2,771,943
Other Borrowings	25,556	33,386	25,032	19,742	27,213	56,499	62,734	69,350
Other Liabilities	14,597	18,042	20,696	18,580	33,364	38,031	39,292	40,550
Total Liabilities	1,270,383	1,608,188	1,827,484	1,939,424	2,320,756	2,575,509	2,867,800	3,208,109
Equity								
Stated Capital	37,364	38,679	40,955	42,858	42,858	50,906	59,808	69,510
Retained Earnings	43,644	50,247	68,252	91,385	125,166	128,320	131,685	135,145
Total Equity Attributable to Equity Holders of the Bank	176,668	183,292	212,240	261,361	302,785	318,013	334,734	352,752
Non-controlling Interests	6,599	6,795	7,317	8,389	14,696	16,965	19,474	22,210
Total Equity	183,267	190,087	219,557	269,749	317,481	334,978	354,208	374,962
Total Liabilities and Equity	1,453,651	1,798,275	2,047,040	2,209,174	2,638,237	2,910,487	3,222,008	3,583,071
Adjusted NAVPS	309.0	320.5	371.2	457.1	529.5	568.1	598.0	630.2



First Capital
A Janashakthi Group Company

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Akna Tennakoon	+94 11 2639 866
Charith Gamage	+94 11 2639 863	Dilhari Dias	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Manusha Kandanaarachchi	+94 11 2639 866
Shahana Kanagaratnam	+94 11 2639 866	Salaama Sanoon	+94 11 2639 866

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Arun Kandasamy	+94 75 4861 506
Anushka Dissanayake	+94 77 2220 021		
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 723 055 000	Equity Branches		
Colombo			Negombo	Priyanka Anuruddha	+94 77 4546 070
Isuru Jayawardana	+94 76 7084 953			Priyantha Wijesiri	+94 77 9065 779
Nishantha Mudalige	+94 77 3204 929		Jaffna	Gratian Nirmal	+94 77 4510 000
Anushka Buddhika	+94 71 4310 600		Agents		
Thushara Pathiraja	+94 77 0076 314		Colombo	Kithsiri Jayasinghe	+94 77 7790 657
Dayan Fernando	+94 77 7354 081		Anuradhapura	Amila Luwishewa	+94 71 0628 195
Anjelo LaBrooy	+94 77 7546 645		Galle	Nuwan Abeynayake	+94 77 7288 274
Dillon Lowe	+94 76 6160 647		Kandy	Ajith Ihalawatta	+94 77 8477 530
Evelyn John	+94 77 779 2452		Embilipitiya	Ruwan Wanniarachchi	+94 77 3877 734
Yudheshan Kannadasan	+94 77 415 5809				
Yumeth Samarakoon	+94 72 4444 135				

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1 st Floor, E.H.Coorary Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

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